

Message Text

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ACTION XMB-04

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TAGS: PBRO, EFIN, IS
SUBJECT: CFF PROGRAM IN ISRAEL

REF: (A) STATE 64413, (B) 76 TEL AVIV 7371

1. UPDATE OF REF B IS AS FOLLOWS:

(A) UNDER "APPROVED ENTERPRISE" STATUS, MEDIUM TO LONGTERM DEVELOPMENT LOANS ARE OFFERED AT RELATIVELY LOW INTEREST RATES, VARYING ACCORDING TO GEOGRAPHICAL LOCATION OF ENTERPRISE. THEY ARE CURRENTLY FIXED AS FOLLOWS:
17 PERCENT FOR DEVELOPMENT AREA A; 19 PERCENT FOR AREA B; AND 22 PERCENT FOR AREA C. THESE RATES ARE CONTROLLED BY GOI AND SUBJECT TO REVISION AT END OF EACH CALENDAR YEAR. RATES ARE NOT AFFECTED BY LENGTH OF REPAYMENT PERIOD.

B) EXCEPT ON RARE OCCASSIONS, LOCAL BANKS DO NOT GRANT MEDIUM-TERM LOANS. THEY PREFER TO GRANT SHORT-TERM, UNLINKED LOANS (UP TO SIX MONTHS) AT ANNUAL INTEREST RATES RANGING FROM 29 TO 35 PERCENT (PLUS 2 PERCENT COMMISSION) DEPENDING UPON MARKET FACTORS AND BANK/CUSTOMER RELATIONSHIP.

2. MOST CFF CREDITS MADE THROUGH IDBI ARE FOR APPROVED INDUSTRIAL ENTERPRISES WHICH ARE ELIGIBLE FOR GOI
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SUBSIDIZED DEVELOPMENT LOANS. MAJORITY OF THOSE MADE BY OTHER FINANCIAL INSTITUTIONS ARE NONAPPROVED CREDITS.

3. WITH REGARD TO MEDIUM-TERM INTEREST RATES FOR CFF BORROWERS, THESE DO NOT EXCEED TEN AND ONE-HALF PERCENT ON THE EXIMBANK PORTION OF LOAN (MADE UP OF 8.50 TO 8.75 EXIMBANK INTEREST RATE PLUS 1.75 PERCENT LOCAL BANK MARGIN). AS FOR PRIVATELY

FINANCED PORTION, LOCAL BANKS CHARGE ONE TO ONE AND ONE-HALF PERCENT OVER US PRIME INTEREST RATE PLUS 0.75 PERCENT EXIMBANK GUARANTEE FEE PLUS 1.75 PERCENT LOCAL BANK MARGIN. LOCAL BANKS SIMILARLY CHARGE BORROWERS A MARGIN OF 1.75 PERCENT FOR OTHER FOREIGN CREDITS AS WELL. THIS FIGURE DOES NOT INCLUDE COMMISSION AND OTHER MINOR EXPENSES. FOREIGN LENDERS OFFER LOANS AT THE FOLLOWING RATES: UK (ECGD) 7.5 PERCENT, BELGIUM 8.25 PERCENT; FRANCE 8.25 PERCENT; FRG 10 PERCENT; AND ITALY 7 PERCENT.

4. BORROWERS OF CFF AND OTHER FOREIGN CREDITS MUST PAY CURRENCY INSURANCE PREMIUM AT A RATE OF 17 PERCENT PER ANNUM FOR CREDITS HAVING REPAYMENT TERM OF THREE YEARS OR MORE. DEVALUATION RISK ON SUBSIDIZED DEVELOPMENT LOANS IS FOR THE MOST PART ABSORBED BY THE GOI.

5. REFTEL ALSO ASKED FOR COMMENTS ON THE HEALTH OF ISRAEL'S BANKING SECTOR. THE TOP THREE BANKS IN ISRAEL-BANK LEUMI, BANK HAPOALIM, AND ISRAEL DISCOUNT BANK (IDB)--HAVE ALL REPORTED BANNER YEARS WITH RECORD PROFITS. THE BANKING SECTOR IS AMONG THE HEALTHIEST IN ISRAELI ECONOMY. PUBLISHED COMPARATIVE FINANCIAL DATA AS OF DECEMBER 13, 1977 ARE AS FOLLOWS: (IL BILLION UNLESS OTHERWISE NOTED)

	BANK LEUMI	BANK HAPOALIM	IDB
TOTAL ASSETS	152.2	124.4	71.6

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TOTAL DEPOSITS OF PUBLIC	83.0	37.1	40.3
TOTAL CAPITAL FUNDS	4.1	3.7	1.9
NET INCOME (IL MILLION)	539.0	485.0	257.0

ON DECEMBER 31, 1977, EXCHANGE RATE WAS \$1EQUAL IL 15.39.

6. ONLY OTHER BANKS IN TOP 15 NOT CONTROLLED BY BIG THREE BANKS AND WHICH HAVE MORE THAN IL 1 BILLION IN DEPOSITS ARE UNITED MIZRACHI BANK AND FIRST INTERNATIONAL BANK OF ISRAEL. THESE TWO ALSO REPORTED A SUCCESSFUL YEAR.

7. EMBASSY HAS NOT YET RECEIVED ANNUAL REPORTS FROM ALL THE MAJOR BANKS, BUT WE WILL FORWARD THEM TO NEA/IAI AS THEY BECOME AVAILABLE.

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